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Suzanne Henderson



## Oil and Gas Lease

Texas Veterans Land Board

Jerry Patterson, Chairman

**Notice of Confidentiality Rights: If you are a natural person, you may remove or strike any of the following information from this instrument before it is filed for record in the public records: your social security number or your driver's license number.**

### Paid Up Oil and Gas Lease

Account Number: 3800-22-5868

THIS AGREEMENT is made and entered into this 17th day of August, 2009 by and between

Dempsey Streetman Farmer, Jr. and Sandra Farmer of (address) 1150 Kennedale Sublett Rd, Kennedale, TX 76060, hereinafter called Lessor, and Four Sevens Energy Co., L.L.C., whose address is 201 Main Street, Suite 1455, Fort Worth, Texas 76102, hereinafter called Lessee.

#### GRANT

1. For and in consideration of \$1935.00 Dollars, the receipt of which is acknowledged by the Lessor, and a like sum in the amount of \$1935.00 Dollars paid to the TEXAS VETERANS LAND BOARD for credit to Lessor's account, and in consideration of the covenants and agreements to be paid, kept and performed by the Lessee under the lease, the Lessor by this lease grants, demises, leases and lets unto the said Lessee for the purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport oil and gas, the following land situated in Tarrant County, State of Texas:

Description for a 1.29 acre tract of land: 1.29 acres of land more or less, out of the J.M. LILLY SURVEY, Abstract No. 980, Tarrant County, Texas, and being the remainder of that certain tract of land described in deed to Tommie Jean Beddow and Tommy Ray Beddow, recorded in Volume 4223, Page 621, Deed Records, Tarrant County, Texas.

Also subject to a Contract of Sale and Purchase between the Veterans Land Board of the State of Texas and Dempsey Streetman Farmer, Jr. and Sandra Farmer dated December 28, 2005 and recorded February 2, 2006 in Tarrant county deed records, Document #D206031878.

containing 1.29 acres, more or less.

#### TERM

2. Subject to the other provisions contained in this instrument, this lease shall remain in force for a term of 3 years from this date, (herein called primary term) and as long thereafter as oil and gas, or either of them, is produced in paying quantities from the leased premises or land with which the leased premises is pooled.

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## ROYALTY

### 3. Lessee agrees to:

(A) Pay to the Texas Veterans Land Board for credit to Lessor's account the value of 12.5% (see Par. 11) of all oil produced and saved from the leased premises free of cost, and 12.5% (see Par. 11) of the market value at the well of all gas produced and saved from the leased premises.

(B) Deliver to Lessor, free of cost, in the tanks or pipelines to which wells may be connected an additional equal 12.5% (see Par. 11) part of all oil produced and saved from the leased premises or at the option of the Lessor 12.5% (see Par. 11) of the value of all oil produced and saved from the leased premises, and 12.5% (see Par. 11) of the market value at the well of all gas produced and saved from the leased premises.

## DELAY RENTAL

*DF*  
*SB*  
4. ~~If no well be commenced on the leased premises or on acreage pooled with the leased premises on or before the \_\_\_\_\_ day of \_\_\_\_\_, this lease shall terminate as to both parties, unless the Lessee on or before that date shall pay or tender to the Lessor or to his credit in the \_\_\_\_\_ bank, at \_\_\_\_\_ or its successors, which shall continue as the depository regardless of changes in the ownership of the land, the sum of \$ \_\_\_\_\_ subject to the provisions of Paragraph 5 herein, and in addition shall pay to the Texas Veterans Land Board, for credit to Lessor's account, a like sum in the amount of \$ \_\_\_\_\_ on or before that date. These payments shall operate as a rental and cover the privilege of deferring the commencement of a well for twelve (12) months from that date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for successive periods of twelve (12) months each during the primary term.~~

## ACCOUNT DELINQUENCY

5. Notwithstanding the provisions of Paragraphs 3 and 4 above, and 22 below, the Texas Veterans Land Board shall be entitled to receive Lessor's portion of all rental and royalty payments under this lease for credit to Lessor's account if and when the Lessor or his assignees become delinquent in payment of installments due under the terms of the Contract of Sale and Purchase agreement covering the leased land. If the Board mails a delinquency notice by certified mail to Lessee's last known address at least forty (40) days prior to the anniversary date of this lease, Lessee agrees that all delay rental payments shall be made to the Texas Veterans Land Board under this paragraph. By accepting an assignment, any assignee of Lessee shall be bound to make payments as specified in this paragraph. If and when the Lessor's account becomes current, the Board shall notify Lessee by certified mail to the Lessee's last known address and payments made after receipt of such notice shall be in accordance with the provisions of Paragraphs 3, 4, and 22 hereof.

## PAYMENTS

6. The Lessee or any assignee of this lease may tender all payments of rental by check or draft and shall deliver such payments on or before the rental payment date. If the bank designated in Paragraph 4 (or any successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to tender such rental payment until thirty (30) days after the Lessor shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

## DRILLING AND REWORKING

7. If at the expiration of the primary term of this lease neither oil nor gas is being produced on the leased premises or on acreage pooled with the leased premises, but Lessee is then engaged in an operation for drilling for oil or gas, then this lease shall continue in force so long as operations for drilling are being continuously prosecuted in good faith on the leased premises or on acreage pooled with the leased premises. Operations for drilling shall be considered to be continuously prosecuted in good faith if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If oil and/or gas shall be discovered and produced from any such well or wells drilled at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil and/or gas shall be produced in paying

quantities from the leased premises or acreage pooled with the leased premises. It is further provided that if production, having once been obtained, shall cease for any cause and the lease is not otherwise maintained in force and effect, this lease shall not terminate if the Lessee commences additional drilling or reworking within ninety (90) days after production ceases and this lease shall remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner without interruptions totaling more than ninety (90) days during any one such operation. If such drilling or reworking operations result in the production of oil or gas, this lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities.

#### **OFFSET WELLS**

8. The Lessee shall adequately protect the oil and gas under the leased premises from being drained by adjacent lands or leases, and neither the bonus, delay rentals, nor royalties paid or to be paid under this lease shall relieve Lessee from this obligation. Lessee shall be required to drill as many wells as the facts may justify and to the depth or depths necessary for effective protection against undue drainage by other wells on adjacent lands or leases.

#### **DRY HOLE**

9. If during the primary term the first well or subsequent successive wells drilled in the leased premises or on acreage pooled with the leased premises is a dry hole or dry holes, or if production after once obtained should cease during the primary term and the lease is not otherwise maintained in force and effect, it shall terminate as to both parties, unless, on or before the rental payment date next ensuing after sixty (60) days from the date of completion of such dry hole or from the date of cessation of production, the Lessee commences additional drilling or reworking operations or resumes payments of annual delay rental as provided in Paragraph 4 of this lease.

#### **FORCE MAJEURE**

10. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil and gas from leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; and this lease shall be extended while Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil or gas from the leased premises. ~~However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary or extended term in the absence of such drilling or reworking operations or production of oil or gas.~~

#### **PROPORTIONATE REDUCTION**

11. If the Lessor owns less than the entire undivided fee simple mineral estate in the leased premises, then the royalties and rentals provided in this lease shall be paid to the Lessor and to the Texas Veterans Land Board only in the proportion which Lessor's interest bears to the whole and undivided fee.

#### **WATER USAGE**

12. Lessee shall have the right to use water produced on the leased premises when such water is needed for operations under this lease; however, Lessee shall not use water from Lessor's wells or tanks. Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water-flood operations without the prior consent of the Lessor. The Lessor shall have gas, free of cost, from any gas well on the leased premises for all stoves and inside lights in the principle dwelling house on the leased premises, if Lessor connects to the well at Lessor's own cost, risk, and expense.

#### **PIPELINE DEPTH**

13. Lessee shall bury pipelines below plow depth.

#### **WELL LOCATION LIMIT**

14. No well shall be drilled nearer than 200 feet to any house or barn now on the leased premises without the written consent of the Lessor.

## **CONSERVATION**

15. Lessee shall have the exclusive right to build, operate and maintain pits, reservoirs, pickup stations and plants for the purpose of picking up and conserving waste oil that flows down the creeks, ravines and across the land embraced in the lease, whether the oil is produced from the leased land or other lands, provided the royalties specified in this lease are paid on such oil at the same rate and under the same condition as provided for oil regularly produced.

## **DAMAGES**

16. Lessee shall pay the Lessor for damages caused by its operations to all personal property, improvements, livestock and crops on the land.

## **REMOVAL OF EQUIPMENT**

17. Subject to the provisions of Paragraph 18, the Lessee shall have the right at any time during the lease term or within ninety (90) days after the expiration of this lease to remove all machinery and fixtures placed on the leased premises including the right to draw and remove the casing, provided however, that the casing shall not be drawn and removed until after thirty (30) days written notice to the Lessor and, provided further, that Lessee shall not remove casing with respect to any well capable of producing oil and/or gas in paying quantities. Any machinery, fixtures and casing which could be removed under this paragraph but which are allowed to remain on the premises shall become the property of the Lessor on expiration of such ninety (90) day period or such extensions as may be granted by the Lessor.

## **WATER WELL**

18. When drilling wells, Lessee shall note all water-bearing strata in the drilling log, and the Lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when Lessor deems it necessary to maintain such well or wells for water. When Lessor wishes to retain casing in an abandoned well for water, Lessor shall give Lessee written notice within fifteen (15) days of abandonment after the well. For such casing left in the well at the request of Lessor, the Lessor shall pay to the Lessee the reasonable estimated salvage value of the casing within thirty (30) days after Lessor receives a statement from Lessee showing the quantity and size of the casing and its reasonable estimated salvage value.

## **ASSIGNMENT**

19. The rights of each party under this lease may be assigned in whole or in part and the provisions in this lease shall extend to their heirs, executors, administrators, successors or assigns; but, no change in the ownership of the land or assignments of rentals or royalties shall be binding on the Lessee until after the Lessee has been furnished with a written transfer or assignment or true copy of the assignment or transfer. It is agreed that if this lease shall be assigned as to a part or as to parts of the described lands and the assignee or assignees of such part or parts of the described land shall default in the payment of the proportionate part of the rentals due from him or them, such default shall not operate to defeat or affect this lease in so far as it covers the part or parts of the leased premises upon which the Lessee or any assignee makes timely rental payments.

## **RELEASES**

~~20. Lessee may, at any time, and from time to time, execute and deliver to the Lessor or place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions and be relieved of all subsequent obligations as to acreage surrendered. When any part of this lease is released and surrendered, the delay rental owed under this lease shall be reduced in the proportion that the acreage surrendered bears to the acreage which was covered by this lease immediately prior to such surrender; however, a release shall not relieve the Lessee of any liabilities which may have accrued under this lease prior to the release and surrender of such acreage.~~

## **RECORDING**

21. When any part of this lease is assigned or released such assignment or release shall be recorded in the county where the land is situated and a copy of such recorded instrument, certified by the County Clerk, shall be filed with the Texas Veterans Land Board accompanied by the appropriate filing fee.

## SHUT IN

22. If at the expiration of the primary term, or at any time thereafter, there is located on the leased premises a well or wells capable of producing gas in paying quantities, and the lease is not otherwise being maintained in force and effect, the Lessee may pay as royalty a sum of money equal to double the annual rental provided herein but in no event to be less than Three Hundred (\$300.00) Dollars per annum for each shut-in well; one half of each shut-in payment shall be paid to the Lessor and one-half of such payment shall be paid to the Texas Veterans Land Board. Additionally, if a part or all of the leased premises is included in a pooled unit and the well or wells is not located on the land covered hereby, Lessee may pay a sum of money equal to double the annual rental provided herein, but in no event to be less than Three Hundred (\$300.00) Dollars per annum for each shut-in well; one half of such shut-in payment shall be paid to the Lessor and one-half of such payment shall be paid to the Texas Veterans Land Board. Such payment is to be made prior to the expiration of the primary term of the lease, or, if the primary term has expired, within sixty (60) days after the well is shut-in, or sixty (60) days after Lessee completes a drilling and reworking operation in accordance with the lease provisions, whichever date is latest. And if such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well royalty payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or from the first day of the month next succeeding the month in which production ceased. Thereafter, the Lessee may extend this lease for four (4) additional and successive periods of one (1) year each by the payment of a like sum of money each year on or before the expiration of the extended term. Provided, however, that if while this lease is being maintained in force and effect by payment of such shut-in gas well royalty, gas should be sold and delivered in paying quantities from a well situated within ~~one thousand (1,000)~~ feet five hundred (500) feet of the leased premises and completed in the same producing reservoir or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well royalty payments shall cease but the lease shall remain in force and effect for the remainder of the current one (1) year period for which the shut-in gas well royalty has been paid, and for five (5) additional successive periods of one year each by Lessee paying compensatory royalty. Such compensatory royalty shall be paid at the royalty rate provided for herein, based on the value of production from the well completed in the same producing reservoir from which gas is being sold and delivered and which is situated within ~~one thousand (1,000)~~ feet five hundred (500) feet of, or draining, the leased premises on which such shut-in well is situated. The compensatory royalty shall be paid monthly, on the same basis as provided for in Paragraph 3, beginning on or before the 20th day of the month next succeeding the month in which gas is sold and delivered from the well situated within ~~one thousand (1,000)~~ feet five hundred (500) feet of, or draining, the leased premises and completed in the same producing reservoir; provided further, that in the event such compensatory royalties paid in any twelve (12) month period are in a sum less than the annual shut-in gas well royalties provided for herein, Lessee shall pay a sum of money equal to the difference within thirty (30) days from the end of such twelve (12) month period. Nothing in this paragraph or this lease shall relieve the Lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law.

## WARRANTY

23. The Lessor warrants and agrees to defend the title to the above described land and agrees that in the event of default in payment by Lessor, the Lessee shall have the right to redeem for the benefit of the Lessor, by payment of any taxes or installment payments due under the Contract of Sale and Purchase agreement with the Texas Veterans Land Board, the rights held by Lessor under the Contract of Sale and Purchase. If the Lessee makes payments for the Lessor under this paragraph, then Lessee can recover the cost of the payments from the Lessor's rentals and royalties. However, the Texas Veterans Land Board's authority to appropriate the Lessor's rentals and royalties under Paragraph 5 supersedes the Lessee's rights under this paragraph.

24. It is agreed that provisions in this lease that require payments to the Texas Veterans Land Board, reports to the Board, filing of instruments with the Board, and obtaining written consent of the Board shall be applicable only so long as legal title to the leased premises is in the Texas Veterans Land Board. So long as the Texas Veterans Land Board or the State of Texas owns an interest in the leased premises then this lease is subject to V.T.C.A. Natural Resources Code, Section 52.291-52.296, and all terms and conditions of the above-mentioned Code are hereby incorporated by reference and made a part of this lease. These Sections of the Code require the Lease to provide that natural gas and casinghead gas be retained for use within the State of Texas, with the Railroad Commission having the right to grant exceptions as provided by the Code.

## POOLING CLAUSE

25. Lessee, at its option, is given the right and power to pool or combine the acreage covered by this lease or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof

as provided in this paragraph and irrespective of whether authority similar to this exists with respect to such other land, lease or leases, when in Lessee's judgment it is necessary or advisable to combine the lands or leases in order to explore, or to develop and operate the leased premises in compliance with the spacing rules of the Railroad Commission of Texas or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from the premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10%, provided that should any governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to the areas with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the lease premises and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has previously been completed or upon which operations for the drilling of a well for oil or gas have previously been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by the lease, and the entire acreage constituting such unit or units as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and other payments out of production shall be entitled on the production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in the unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis - that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from the lease or oil pooled unit from which it is produced and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

APPROVED BY  
JERRY PATTERSON, CHAIRMAN  
TEXAS VETERANS LAND  
BOARD

Dempsey Streetman Farmer, Jr. Lessor

Sandra Farmer Lessor

Dempsey Streetman Farmer, Jr.

Sandra Farmer

(NOTICE: This lease must be accompanied by a mineral lease service fee when presented to the Texas Veterans Land Board for filing.)

**DOUBLE ACKNOWLEDGMENT**

**STATE OF TEXAS  
COUNTY OF TARRANT**

Before me, the undersigned authority, on this day personally appeared

**Dempsey Streetman Farmer, Jr. and Sandra Farmer**, spouse, both known to me to be the persons whose names are subscribed to the foregoing instrument and acknowledge to me that they executed this for the purposes and consideration therein expressed.

Given under my hand and seal of office this, the 17<sup>th</sup> day of August, 2009.



*Rachael Bigam*  
Notary Public, in and for Tarrant County, Texas

My Commission Expires 12/21, 2011.

**SINGLE ACKNOWLEDGMENT**

**STATE OF TEXAS  
COUNTY OF \_\_\_\_\_**

Before me, the undersigned authority, on this day personally appeared

\_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledge to me that he/she executed this for the purposes and consideration therein expressed.

Given under my hand and seal of office this, the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Notary Public, in and for \_\_\_\_\_ County, Texas

My Commission Expires \_\_\_\_\_.